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# Determinants of Customer Retention with Special Reference to Mobile Telecommunication Industry in Sri Lanka

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## Abstract

The objectives of the study were to examine the factors affect to retention of customers of Mobile Telecommunication Industry, to identify appropriate retention Strategies for the industry and to test whether or not the demographic factors (gender, age, education, occupation, income and marital status) affect the retention. To achieve these objectives nine hypotheses were developed and tested. Based on the literature review on customer retention, researcher recognized that marketers can use different tools relating to independent variables (Customer satisfaction, Payment Equity, Affective & Cumulative Commitment, Customer Loyalty Programs & Triggers) in order to determine the retention strategy practices. However, the validity and the reliability of the measurement scales were tested against the survey data. The study is a cross-sectional in time and the primary data collected from a conveniently selected sample of 154 adult consumers in Sri Lanka. The unit of analysis is at individual level. To test the hypotheses, Chi square Tests, independent samples T-tests, ANOVA and Regression tests have been performed. Findings of the study revealed that post-paid retention was 2.56 times more likely than the pre-paid due to medium size effect from customer satisfaction on post-paid customers. Therefore, marketers should pay their attention on satisfaction of the pre-paid customers in designing appropriate marketing strategies such as segmenting, targeting, positioning and marketing mix strategies. Further, there were significant impacts from customer satisfaction, payment equity, Effective Commitment & Trigger on customer retention. As the other dimensions have no significant impact on customer retention, the above dimensions could be identified as the customer retention determinants in the Sri Lankan context & the marketers should pay attention on these dimensions to retain the customers. The findings of this study are important for corporations and future researchers on Customer Retention.

***Keywords:*** *customer retention & satisfaction; cumulative commitment; customer loyalty programs & triggers; effective commitment; payment equity*

## 1. Introduction

The world has taken cognizance of the emergence of the service industry as a prominent contributor to its economy over the last century. A number of countries in the last few decades have experienced a dramatic change in the importance of services and the role of the services sector in their economies (Sharma, 2002). In Sri Lanka, it was found that people factors/ contributors play a more important role in customer satisfaction than the technology, price and payment terms. Higher ranked factors such as value delivery and solution provisioning and support characteristics are mainly delivered through people contribution. It indicates that service providers should invest more on developing skills of people in increasing the customer retention (Silva & Yapa, 2010).

Sri Lanka's telecommunication industry contributes significantly towards the country's development and plays an integral part in the lives of many. It is also a key component of the commercial world. Notably, the domestic telecommunications sector has been charting exponential growth, and continues to enjoy promising prospects. The dynamic nature of the telecommunications sector allows little respite for industry operators. The government's liberalization of this industry can be seen as the main driving force behind the rapid development of the country's telecommunication infrastructure and services. Information Communication Technology dramatically changed the world socially, politically and economically. The de-regulation of the telecom industry in Sri Lanka in the early 1990s brought multiple players/ service providers to the country. With the competition becoming tough, service providers realized that retaining one's existing customer base is important as much as the acquiring of a new customer (Coyles & Gokey, 2005). In that context, service providers realized the importance of knowing the attributes that customers consider as relevant, in deciding whether to continue or not to continue with a particular service provider. Based on the above understanding, the study has focused on "Identify factors that affect to Customer Retention of Mobile Telecommunication Industry in the Sri Lankan context.

## 2. Literature Review

According to Gustafsson, Johnson, & Roos (2005), there are three factors under the customer relationship management, affecting to the customer retention and those are customer satisfaction, affective / calculative commitment and triggers (situational & reactional). Some other authorities (Peter, 2003) emphasized retention determinant factors such as satisfaction, affective commitment, payment equity and loyalty programs have major impact on the customer relationship management.

### *Customer Relationship Management & Customer Retention*

Customer relationship management (CRM) in its broadest sense simply means managing all customer interactions. In practice, this requires using information about your customers and prospects to more effectively interact with your customers in all stages of your relationship with them. It refers the three stages as acquiring customers, increasing value to the customers, retaining good customers (Lovelock, Ritz & Chatterjee, 2004).

Customer relationships have been increasingly studied in the academic marketing literature (Berry, 1995; Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994; Sheth & Parvatiyar, 1995). An intense interest in customer relationships is also apparent in marketing practice and is most evident in firms' significant investments in customer relationship perception (CRP) systems (Kerstetter, 2001; Winer, 2001). Although the impact of these tactics on customer retention has been reported (e.g., Bolton, 1998; Bolton, Kannan, and Bramlett, 2000), there is a discussion about whether such tactics can succeed in developing customer retention in consumer markets (Dowling & Uncles, 1997). Several studies have considered the impact of CRM Practices on customer retention (e.g., Anderson & Sullivan, 1993; Bolton, 1998; Bowman & Narayandas, 2001; De Wulf, Odekerken-Schröder, & Iacobucci, 2001). Relationship marketing theory and customer equity theory posit that customer' perceptions of the intrinsic quality of the relationship (i.e., strength of the relationship) and customers' evaluations of a supplier's offerings shape customers' behavior in the relationship (Garbarino & Johnson, 1999; Rust, Zeithaml, & Lemon, 2000; Woodruff, 1997).The most prominent customer relationship perception representing the strength of the relationship is affective commitment and calculative commitment (Moorman, Zaltman,& Desphandé, 1992; Morgan & Hunt, 1994). One study has considered the effect of CRPs and relationship management instruments on customer retention (Verhoep, 2005). Further, satisfaction and payment equity are other important constructs with respect to the evaluation of a supplier's offerings (Bolton & Lemon, 1999), hence included these three constructs in the model.

The majority of the studies have focused on loyalty or preferential treatment Programs and the results show mixed effects of these programs on customer retention. Despite the intensive use of direct mailings in practice, their effect on customer loyalty has almost been ignored. Bolton (1998) suggest that relationship management instruments (RMIs) are a subset of other marketing instruments that are specifically aimed at facilitating the relationship, and they distinguish between loyalty or reward programs and tailored promotions. In addition, RMIs can be classified according to Berry's (1995) first two levels of relationship marketing.

At the first level (Type I), firms use economic incentives, such as rewards and pricing discounts, to develop the relationship. At the second level (Type II), instruments include more social attributes. By using Type II instruments, firms attempt to give the customer relationship a personal touch. In this study, we focus on two specific Type I RMIs: loyalty programs. In most cases, price discounts or other sales promotions (e.g., gadgets) are used to entice the customer to buy. The loyalty program we include in the study is a reward program that provides price discounts based on the number of products or services purchased and the length of the relationship. A loyalty program is a marketing program that is designed to build customer loyalty by providing incentives to profitable customers. A loyalty program can accelerate the loyalty life cycle, encouraging a $1^{st}$ - or $2^{nd}$ -year customer to behave like a company's most profitable $10^{th}$ year customer. These customers become business builders by buying more, paying premium prices, and bringing in new customers by referrals (O'Brien & Jones 1995). There are various views about the effectiveness of loyalty programs. Bolton (1998) claimed that loyalty programs increase operating costs by adding expenses for administering the program without acquiring a competitive edge if all companies are forced to offer loyalty programs just like other short-term promotional programs. Dowling and Uncles (1997) claimed that a loyalty program is unlikely to alter customer behaviour fundamentally, especially in established competitive markets. Dowling and Uncles's claims are partly based on findings from the British grocery market in which market shares of competing firms have remained stable despite use of loyalty programs. There are several theoretical reasons the reward based loyalty program being studied should positively affect customer retention. First, psychological investigations show that rewards can be highly motivating. Research also shows that people possess a strong drive to behave in what-ever manner necessary to achieve future rewards.

According to Pullins and Roehm (2002), it is reasonable to assume that during participation in a loyalty program, a customer might be motivated by program incentives to purchase the program sponsor's brand repeatedly. Second, because the program's reward structure usually depends on prior customer behaviour, loyalty programs can provide barriers to customers' switching to another supplier. For example, when the reward structure depends on the length of the relationship, customers are less likely to switch (because of a time lag before the same level of rewards can be received from another supplier). It is well known that switching costs are an important antecedent of customer loyalty (Dick & Basu, 1994). Hence, relationship management instruments also considered as retention determinants in the conceptual model.

Edvardsson and Strandvik (2000) emphasized that situational and reactional triggers also has an impact on customer retention. In the marketing literature, triggers are frequently cast as alarm clocks that concentrate energy for further actions (Gardial, Flint, & Woodruff, 1996). As we describe in our empirical study, preliminary qualitative interviews support the use of Roos's (1999) situational and reactional triggers. Situational triggers alter customers' evaluations of an offering based on changes in their lives or in something affecting their lives. These include demographic changes in the family (e.g., becoming "empty nesters"), changes in job situations, and changes in the economic situations. In a way, the product has expired; it no longer reflects the needs of the customer. However, it may take considerable time before the switching path is complete ( Roos, 1999). Reactional triggers are those critical incidents of deterioration in perceived performance that are traditionally described in the literature (Gardial, Flint, & Woodruff 1996). When something out of the ordinary occurs, such as a decline in performance before purchase, during purchase, or during consumption, it redirects a customer's attention to evaluate present performance more closely, which may put customers on a switching path (Roos, 1999). For example, Bolton's (1998) discussions suggest that either a situational or a reactional trigger affects the relevance of prior-performance information when predicting retention. When faced with a situational trigger, customer satisfaction as an overall evaluation of prior performance may become less relevant to the prediction of retention. Similarly, because customers in a reactional trigger condition are actively problem solving, they may focus on present or future performance. Waiting to observe how the company addresses the product or service problem, these customers may put less rather than more stock in prior performance, as measured by overall customer satisfaction. Hence, the researcher has considered the impact of situational and reactional triggers on customer retention when constructing the conceptual model.

### *Conceptual Model & Development of Hypotheses*

According to the literature on customer retention, the researchers recognized that marketers can use different tools relating to independent variables (Customer satisfaction, Payment Equity, Affective & Cumulative Commitment, Customer Loyalty Programs & Triggers) in order to determine the retention strategy practices. Figure 1.0 indicates the conceptual model, which has been developed in order to indicate the relationships.

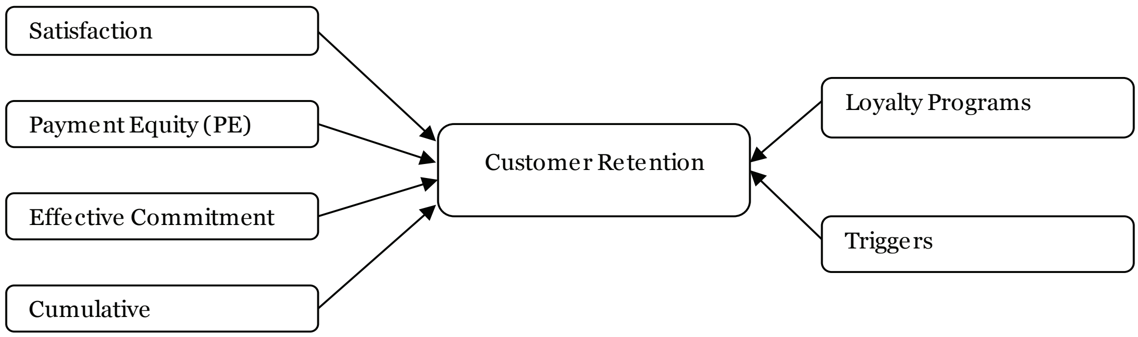


Figure 1 : Conceptual Model

The researcher has designed nine hypotheses statements to measure the customer retention and its impacts.

$H_1$: Effective Commitment has significant impact on customer retention
$H_2$: Satisfaction has significant impact on customer retention
$H_3$: Payment equity has significant influence on customer retention
$H_4$: Calculative Commitment positively affects customer retention
$H_5$: Loyalty programs has significant impact on customer retention
$H_6$: Situational triggers negatively affect customer retention
$H_7$: Reactional triggers negatively affect customer retention
$H_8$: There is an impact of demographic factors on customer retention
$H_9$: There is an impact from PE, Accumulative/Cumulative Commitment & RMIs on Customer Satisfaction

## 3. Research Design

Based on literature review, the researcher could identify the dimensions and variables, which influence the degree of Customer Retention (CR). Hence, the purpose of this study was to test empirically how the CRPs, RMIs &demographic factors influence the degree of CR in the Sri Lankan context on the selected industry. A field survey accompanying with a tested questionnaire was used to gather data. The research design involves a series of decisions including the determination of type, purpose, setting, sampling plan and time horizon of the study. This descriptive research was conducted with the purpose of filling the gap in the knowledge of the customer retention. The study setting was non-contrived (Sekaran, 2003) and data collection was conducted in the first quarter of year 2013 with 154 mobile subscribers as the sample. The research extent was Colombo, Matara and Kandy districts in Sri Lanka (Sample Unit).

### *Operational Definitions, Measures and Validation of Measurement Properties*

A self-administered questionnaire was developed to collect information. The questionnaire consists of instruments designed for measuring Customer Relationship Management (CRM), Triggers (ST/RT), RMIs and the demographic characteristics. Based on the literature review (Moorman, Zaltman, & Desphandé, 1992; Morgan & Hunt, 1994) the researchers identified customer satisfaction, payment equity, calculative & effective commitment as the dimensions of CRMs, which have impact on customer retention. Bolton (1998) suggests that RMIs are a subset of other marketing instruments that are specifically aimed at the retention, and they distinguish between loyalty or reward programs and tailored promotions. Therefore, the researchers used both two types of RMIs to measure the retention. The summery of the indicators used for measuring the retention is given in the appendix 01. All indicators of the dimensions were assessed through respondents' perceptual evaluation on a five point Likert scale (Appendix 01). The dependent variable of customer retention has been determined by use of the dichotomous scale. To measure the construct validity of the study, factor analysis was used for each dimension while using Inter-item consistency reliability in order to test the reliability of the constructs. In order to measure the inter-item consistency, Cronbach's coefficient alpha (Cronbach, 1946) was used. According to findings, it implies that the all the items used to measure dimensions of CR contribute above the accepted minimum level 0.7 (Sekaran, 2007) in measuring the relevant concept, but cumulative commitment scored lesser value of 0.505 & the indicator CC 03 (ability to have the location advantage over other competitors) was removed as result the Cronbach's Alpha value of cumulative commitment has increased.

## 4. Data Presentation and Analysis

The first hypotheses of the study was to examine whether or not the Customer Retention varies across Demographical Factors; It was clearly identified that all significant values were greater than 0.05 at the 5% significant level in the performed Chi Square tests with dependant variable & demographic factors (Gender, Age, Educational level & occupation). Hence, it is concluded that there are no significant effects from demographic factors on the customer retention & the $H_8$ has been rejected. Even though the demographic factors had not any significant effect on customer retention, it was implied that the mobile type has a different impact on customer retention.

Since the p value was 0.011 at the 5% significant level in Chi Square Test, which implies that there is a significant different effect from Mobile Type on the Customer Retention. To measure the effect size, the researcher has used the odds ratio (Field, 2004) and it implied that the post-paid retention was 2.56 times more likely to retain than the pre-paid.

$$\text{Odds Ratio} = \frac{\text{Prepaid Retention No Count / Prepaid Retention yes count (20/32)}}{\text{Post paid Retention No Count / Post-paid retention yes count (20/32)}}$$

The other hypotheses ($H_1$, $H_2$, $H_3$, $H_4$, $H_5$, $H_6$, $H_7$) of the study were to investigate the effect of retention determinants (CRPs, RMIs& Triggers) on Customer Retention. Since the Customer Satisfaction and Retention are numerical and Categorical variables, the Independent Sample t test were performed to measure the substantive effect. Since the *p* value was 0.000 at the 5% significant level, the researcher has rejected the null hypothesis & converted the *t* value in to *r* value (Field, 2004) in order to measure the effect size.

r = √t 2 /t 2 +df (Field 2004 )
r = √-6.7212/-6.721 2+152
r = 0.47

According to Cohen (2003, 2007) Benchmarks for effect sizes, (Cohen's *d* and Pearson's correlation coefficient = *r* ) it implies that the satisfaction has a substantive impact on customer retention that closure to High level effect ( So $H_2$ is accepted). After performing an Independent sample t test to measure the effect of payment equity on customer retention, the researcher has identified that the p value is 0.05 & the null hypothesis was rejected due to p value was lesser than 0.05. That implied that there is a significant effect from payment equity on the Customer Retention (So $H_3$ is accepted). To measure the effect size, *r* value was calculated & it implied that the payment equity has a substantive impact on customer retention that closure to lower level effect ($r$=0.16 ).As the overall result, it implied that all the determinants have significant impact on customer retention except the Cumulative Commitment and RMIs. Therefore, it implies that $H_4$ and $H_5$ are rejected. According to the research findings in it implied that all the independent variables (customer satisfaction, Payment Equity & Effective Commitment) have significant impact on customer retention as follows.

Table 1 : Summary of the effect sizes

| Dimension | Sig. (p) Value | Significant impact | Effect size |
|---|---|---|---|
| Customer Satisfaction | 0.000 | Yes ( r = 0.47 ) | Medium Effect |
| Payment Equity | 0.043 | Yes ( r = 0.20 ) | Medium/Lower Effect |
| Effective Commitment | 0.017 | Yes ( r = 0.16 ) | Lower Effect |
| Calculative Commitment | 0.216 | No | No |
| RMI | 0.709 | No | No |

The objective of the hypotheses 06 and 07 were to determine whether the Situational or reactional triggers have a significant impact on customer retention. To test the hypotheses the researchers have performed descriptive analysis and it implies that 29.2 % (Churn Ratio) of the sample had changed their mobile connection due to uncontrollable situations like changing of working conditions, family conditions or living conditions. Hence, it implies that Situational triggers have a significant negative impact on customer retention; therefore, Hypothesis 6 is not rejected. Based on the descriptive analysis on impact of reactional triggers on customer retention, it implies that the 41.5 % (Churn Ratio) of the sample had changed their mobile connection due to changing of the relationship with the company (Poor service or fault product/service). Hence it implies that, reactional triggers has a negatively impact on customer retention, therefore Hypothesis 7 is not rejected. The last hypothesis of the study was to test whether or not the Retention Dimensions influence on the customer satisfaction. To cover this objective the hypothesis number nine was derived. Since both variables are numerical, the researcher has performed a regression analysis in order to measure the significant effect.

Table 2 : Summary of the effect sizes of independent variables on customer satisfaction.

| Dimension | Sig. (p) Value | Significant Impact | Variance size |
|---|---|---|---|
| Payment Equity | 0.000 | Yes ( $R^2$= 0.105 ) | 10.50% |
| Effective Commitment | 0.000 | Yes ( $R^2$= 0.433 ) | 43.30% |
| Calculative Commitment | 0.001 | Yes ( $R^2$= 0.069 ) | 6.90% |
| RMI | 0.000 | Yes ( $R^2$= 0.119 ) | 11.90% |

According to the findings, it implies that all the determinants have significant impact on customer satisfaction & the highest satisfaction variation could be explained through the accumulative commitment. Hence, $H_9$ is not rejected.

In order to determine the reason for different effect on customer retention for pre-paid and post-paid customers (Odds Ratio=2.56), the researcher has performed an independent sample t test. Since the most significant impact for retention was identified from customer satisfaction, the dependent variable has taken as the customer satisfaction while mobile type has considered as the independent variable. Results implied that the level of significance is 0.003 < 0.05, we reject the null Hypothesis and it implies that the Customer

Satisfaction of post paid is significantly differ from the pre-paid.

r = √t 2 /t 2 +df (Field 2004 )
r = √ -3.0862 / -3.086 *2 +152 = 0.24

When calculating the effect size, it implies that customer satisfaction has a substantive different impact on retention of pre-paid and post-paid customers that closer to medium Level effect.

## 5. Conclusion

According to the data analysis it implies that the customer satisfaction has major impact (r = 0.47/Medium impact) on customer retention than other determinants. It implies that, the marketers should focus more on customer satisfaction in order to retain their customers. Since payment equity has medium level effect on customer retention the marketers should focus on pricing when implementing strategies to market their products. Since effective commitment also has lower effect on customer retention, the marketers should address this in the marketing process. In order to have more satisfaction they should highly concern on effective Commitment & the triggers. That will ultimately effect to the retention ratio as discussed. Based on the findings stated in data analysis, it is well evident that the Triggers have a significant impact on Customer Retention, the marketers should focus on avoiding their service failures, selling faulty products or services, because the results revealed that the 41.5 % (Churn Ratio) of the sample had changed their mobile connection to the current connection due to changing of the relationship with the company (Poor service or fault product/service). However, marketers cannot avoid the situational triggers, because that is happening due to uncontrollable situations like changing of working condition, family condition or living condition.

Since Reactional Triggers have significant negative impact on customer retention, it is recommended to minimize the service errors, failures or faults.

Analysis reveals that the post-paid retention was 2.56 times more likely to retain than the pre-paid. It was well evident that, this was happened due to the significant medium level effect ( r = 0.24 ) from customer satisfaction on the post-paid customers. It implies that the satisfaction of post-paid is greater than the satisfaction of pre-paid & it was a reason to enhance the retention ratio of post-paid than the pre-paid. Hence, it is recommended, network operators to focus more on the satisfaction of the pre-paid customers rather than focusing on other determinants in order to have better results. As concluding remarks, findings of the study revealed that Customer Satisfaction, Payment equity , Effective Commitment and Triggers have major effect on customer retention and that can be considered as the determinants of the customer retention in the Sri Lankan context.

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## Appendix: 1 – Operationalization of the variables

| **Indicators** | **Customer Satisfaction** | **Scale** |
|---|---|---|
| CS 1 | Satisfaction of personnel attention of the company | 5 point Likert Scale |
| CS 2 | Satisfaction about the willingness of the company to explain procedures | 5 point Likert Scale |
| CS 3 | Satisfaction of the service quality of the company | 5 point Likert Scale |
| CS 4 | Satisfaction about the responding by the company to claims | 5 point Likert Scale |
| CS 5 | Satisfaction about the expertise of the personnel of the company | 5 point Likert Scale |
| CS 6 | Satisfaction of the relationship of the company | 5 point Likert Scale |
| CS 7 | Satisfaction about the alertness of the company | 5 point Likert Scale |
| **Indicators** | **Payment Equity** | **Scale** |
| PE 1 | No objection about the monthly rental of the mobile connection | 5 point Likert Scale |
| PE 2 | No objection about the pro – rated rental ( The rental which comes with the initial stage – in the first bill ) | 5 point Likert Scale |
| PE 3 | The call tariff are at the reasonable level in mobile connection | 5 point Likert Scale |
| PE 4 | No objection with the initial call deposit & the connection fee of the mobile connection | 5 point Likert Scale |
| **Indicators** | **Affective Commitment** | **Scale** |
| AC 1 | Takes pleasure in being a customer of the company | 5 point Likert Scale |
| AC 2 | The company is the operator that takes the best care of it's customers | 5 point Likert Scale |
| AC 3 | There is a presence of reciprocity in my relationship with the company | 5 point Likert Scale |
| AC 4 | Feelings of trust towards the company | 5 point Likert Scale |
| **Indicator s** | **Calculative Commitment** | **Scale** |
| CC1 | It pays off economically to be a customer of the company | 5 point Likert Scale |
| CC 2 | Suffering economically if the relationship were broken | 5 point Likert Scale |
| CC 3 | The company has location advantages Vs other companies | 5 point Likert Scale |
| **Indicators** | **Situational Trigger** | **Scale** |
| ST 1 | Switching to another network due to an uncontrollable situation like changing of the Working Conditions. | 5 point Likert Scale |
| ST 2 | Switching to another network due to an uncontrollable situation like changing of the family condition. | 5 point Likert Scale |
| ST 3 | Switching to another network due to an uncontrollable situation like changing of the living condition | 5 point Likert Scale |
| **Indicators** | **Reactional Trigger** | **Scale** |
| RT 1 | Switching to another network due to a change in relationship with the company likes Poor service | 5 point Likert Scale |
| RT 2 | Switching to another network due to a change in relationship with the company like receiving a faulty product (Sim / phone or something similar ) | 5 point Likert Scale |
| **Indicators** | **Relationship Management Instruments** | **Scale** |
| RMI 1 | The company is always providing discounts (or economic incentives) to its customers. | 5 point Likert Scale |
| RMI 2 | The company is always providing rewards to its customers. | 5 point Likert Scale |
| **Indicator** | **Customer Retention ( Dependent variable)** | **Scale** |
| CR | Switching to another operator in the future ( Yes/No) | Dichotomous Scale |